

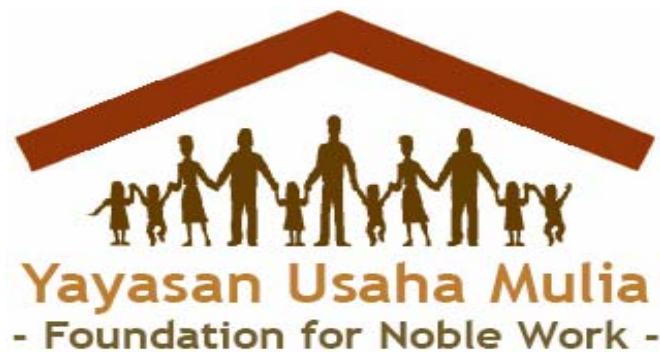
Progress Report and Funding Request  
to SD Canada

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**Microcredit for Women  
Central Kalimantan**

December 2009

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## **PROJECT BACKGROUND**

### **1.1 YUM and SD Canada**

Through the Susila Dharma International Network, SD Canada has generously supported YUM's Microcredit Project for a number of years.

### **1.2 YUM's Microcredit Project Updates**

Since 2000, IRDN and now YUM have run a Microcredit Project in four Central Kalimantan villages including Sei Gohong, Banturung, Habaring Hurun and Marang; the project was initially known as 'Women-to-Women'. During this time IRDN and YUM worked with more than 200 women, providing small loans, management and repayment advice.

Following the introduction of a new microfinance law in Indonesia, YUM's Microcredit Project was temporarily suspended and after all loans had been repaid, the project was stopped. The new law ruled that microcredit operations must be run by cooperatives, and no longer by foundations such as YUM.

In July 2009, YUM was fortunate to receive a Volunteer from the Australian Government's Youth Ambassador for Development project to work on YUM's Microcredit Project. Volunteer Alison Collier has been assigned to help local staff develop a new microcredit model and provide practical microcredit training as part of her 12month placement.

Since the new microfinance law was passed, YUM, with the expert assistance of Alison Collier, has been busy creating new microcredit procedures with a view to launch a new project in 2010.

## **PLANS FOR 2010**

### **2.1 New Project Development**

In 2009 YUM Staff Member Lili Karlina and Volunteer Alison Collier invested considerable time into research and the redesign of YUM's Microcredit Project, including:

#### **Research:**

- Comprehensive area surveys to assess the potential for microcredit in the region, including research into existing credit sources.
- Research into current credit markets and local competitors.
- Research into the formation of a cooperative, including meeting with existing cooperatives in the area and the Department of Cooperatives.
- Increased understanding of the Cooperatives' Standard Operating Procedures (SOP).
- Research into the design of microcredit systems, including a visit to an established microcredit organization *Tanaoba Lais Manekat Foundation (TLM)* in Kupung, West Timor.

#### **Development:**

- Commencement of the legal establishment of a new cooperative to implement the project and formal application to be submitted to 'The Mayor and Department of Cooperatives'.

- Development of a new Group-Lending Model.
- Development of Group Lending Procedures.
- Integration of the Grameen Bank's Progress out of Poverty Index (PPI), to measure the project's social performance.
- Development of a Credit Analysis Process.
- Development of a detailed Reporting Structure.
- Development of a Memorandum of Understanding (MoU) between YUM and the Cooperative to ensure the interests of both parties remain in line during the project.

This research and development work led to the creation of a new Microcredit Proposal to re-launch the project in the villages of Tangkiling and Banturung in the Bukit Batu sub-district in 2010.

The new microcredit model has been designed to expand to all villages in the Bukit Batu sub-district in future and will be run out of the YUM's office in Central Kalimantan, 36km from the city of Palangkaraya. Please see the full Microcredit Proposal in Appendix 1. for project details.

## **2.2 Project Objectives**

YUM wishes to re-launch the Microcredit project to:

- Support the growth of women's small business leading to higher output and improved income security.
- Empower and improve the welfare of women and their families.

## **2.3 Project Beneficiaries**

The demand for microfinance in rural areas remains largely unmet. A majority of rural households still do not have access to funding from a semi-formal or formal institution.

Self-employment in the Bukit Batu area is high and local women are engaged in a number of different small-business activities including market trading and kiosk operation. Local women have expressed a strong desire for YUM's Microcredit Project to be resumed.

## **2.4 Planned Implementation**

YUM is currently going through the process of legally establishing a cooperative within the local community. We anticipate formalizing the cooperative and its members by March/April 2010 at the latest.

During this time however, the pre-cooperative Socialization Procedure will commence. As soon as YUM receives notification from 'The Mayor and Department of Cooperatives' regarding the legal status of the new cooperative, YUM will implement the post-cooperative Socialization Procedure and begin issuing group loans.

## 2.5 Project Sustainability and Evaluation

The project will require a funding commitment for at least the first three years, until it has reached sustainability. YUM's fundraising team will make an active commitment to source funding in 2010.

Once a loan has been disbursed, the Field Officer will conduct monitoring of the client loan and business every three months. The Field Officer will prepare a monthly progress and evaluation report, with the assistance of the Project Manager, for YUM's Executive Director.

## 2.6 Funding request to SD Canada

Further funding support from SD Canada will strengthen YUM's position to successfully re-launch YUM's Microcredit Project in 2010.

In previous years, SD Canada has generously donated funding for this project and we hope that SD Canada could once again support the re-launching of this Microcredit Project.

## 2.7 Donor Recognition

All YUM donors receive acknowledgement in YUM's bi-annual Newsletter, YUM's Annual Report and website.

## 2.8 Bank Details

Donations, via bank transfer, may be sent to:

CIMB Niaga, Jakarta Fatmawati Branch  
Jl. R.S. Fatmawati No. 20, Jakarta 12430, Indonesia  
Account No.: 917.01.00620.00.7 in the name of Yayasan Usaha Mulia –  
General  
Swift code: BNIAIDJA

Official receipts are provided for all donations.

We sincerely hope our application will be received favourably in response to the funding needs of this project.

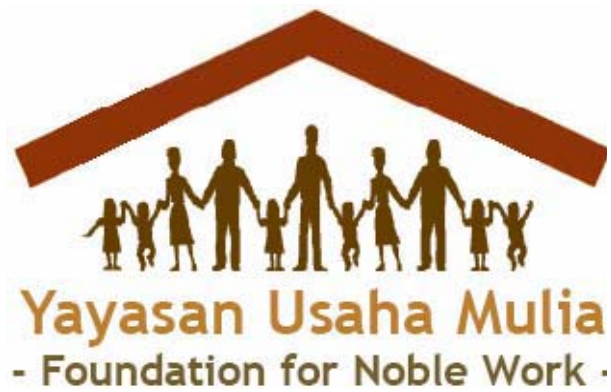
With thanks,



E. Olvia Reksodipoetro  
Chairperson

**Yayasan Usaha Mulia/Foundation for Noble Work**

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**MICROCREDIT PROJECT  
PROPOSAL 2010**

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*Prepared by Lili Karlina and Alison Collier*

## **I. EXECUTIVE SUMMARY**

### **a. About Yayasan Usaha Mulia**

Yayasan Usaha Mulia (YUM) has been working in Indonesia since 1975 to improve the quality of life for the country's poor. YUM runs a number of community development projects through its head office in Jakarta and branch offices in Cipanas (Java), Banda Aceh (Aceh) and Bukit Batu (Kalimantan).

YUM's success is largely due to its commitment to transparency, accountability and respect towards the local community.

Due to the change in Indonesian microcredit law YUM has been forced to halt its microcredit project in Kalimantan. Considerable work has now gone into the redesign and improvement of the microcredit project.

YUM will now focus on the creation of a cooperative in order to conduct microcredit and savings.

### **b. Market Opportunity**

Access to the formal credit market remains largely unobtainable to poor women in the Bukit Batu area and as such the YUM cooperative will bridge an important gap in the credit market.

Self-employment in the Bukit Batu area is high and local women are engaged in a number of different small-business activities. Local women have expressed a strong desire for the microcredit project to be resumed.

### **c. Products**

The YUM cooperative will offer short-term (26 week up to 52 week) group loans requiring weekly repayments. Interest will be charged at the competitive rate of 32.75%p.a and compulsory saving will be required.

Repayment will be collected at the client's place of work or home by a field officer. Clients have the option of faster repayment if desired.

The YUM cooperative group loan product will not require collateral from its clients. Clients will be offered loans in small solidarity groups of 2 –4 members but there will be no system of shared liability enforced. Quality of the portfolio will be maintained by a strict client selection and loan analysis process.

Clients will appreciate the ease with which they may obtain a loan and the convenience by which repayments are made. At the client's request, the YUM cooperative will aim to avoid any lengthy training or meetings with clients.

### **d. Social Objectives**

The microcredit project has a social objective to empower women and improve the welfare of women and their families. In order to assess whether the microcredit project is fulfilling this objective social monitoring will be conducted for every client.

The microcredit project will incorporate the Grameen Bank's Progress out of Poverty Index (PPI) for the purpose of social monitoring. The PPI is an accurate, effective and low cost social performance measurement and management tool.

### e. Proposed Financing

Funding required for the provision of new loans and operating expenses (IDR)				
	Q1-2: 2010	Q3-4: 2010	Q1-2: 2011	Q3-4: 2011
<b>REQUIRED FUNDING</b>	<b>33,810,000</b>	<b>51,340,000</b>	<b>44,925,800</b>	<b>38,857,010</b>
New loan capital	20,000,000	40,000,000	40,000,000	40,000,000
Operating Expenses (less interest income)	13,810,000	11,340,000	4,925,800	(1,142,990)

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## II. THE MICROFINANCE INDUSTRY, YAYASAN USAHA MULIA (YUM) MICROFINANCE PROJECT AND ITS PRODUCTS.

### a. The Microfinance Industry in Indonesia

Microfinance has a long history in Indonesia and is relatively well developed. Regulated financial institutions, Bank Rakyat Indonesia units and BPRs (People's Credit Banks), provide the bulk of microfinance services. Local and community based financial institutions; cooperatives and numerous subsidized government projects are also engaged in microfinance.

#### Key Challenges and Opportunities

The demand for microfinance in rural areas remains largely unmet. A majority of rural households still do not have access to funding from a semi-formal or formal institution.

Commercial microcredit providers, BRI units and BPRs, tend to cover only the upper levels of the microcredit market. NGOs, cooperatives and village-based institutions (BKDs) reach a lower end of the market but have a limited outreach in rural areas.

Government development projects engaging in microfinance are often poorly managed creating an unsustainable source of cheap funding. Loan repayment is often not enforced and loans being written-off are common. This creates an unfair competition to commercial microcredit suppliers and a lack of discipline among clients.

In 2001 the first ever law on foundations was passed. According to the law, foundations may provide social, humanitarian and religious services only and are forbidden from engaging in income-generating or economic activities, such as microfinance. As such all foundations wishing to engage in microfinance must form a BPR or cooperative.

The cooperative sector is regulated by a government regulation of 1995 and a ministerial decree of 1998, which restricts credit and savings activities to financial cooperatives (KSP) or specialized units of multipurpose cooperatives (USP). Minimum capital requirements are also imposed.

### b. YUM Microfinance Project

#### Overall Aim

To provide credit for women's small business where access to the formal credit market is otherwise unobtainable.

#### Objectives

To support the growth of women's small business leading to higher output and resulting in improved income security.

To empower women and improve the welfare of women and their families.

<b>Target Number of Clients and Key Financial Targets</b>			
	End Year 1	End Year 2	End Year 3
Loan Portfolio (IDR)	59,000,000	131,247,500	131,978,803
Average Loan Size	500,000	750,000	750,000
Target Number of Clients	118	175	176
Annual Interest	32.76%	32.76%	32.76%
PAR	5%	5%	5%
OSS*	0.177	0.394	1

\* Total interest revenue / (operating expense + provision for new loan capital).

## Indicators of Success

There are increased incomes among the participants and their households.

There is increased welfare among the participants and their households.

Almost all loan takers repay their loans.

Business/self-employment continues in a sustainable manner after the loan taker has left the cooperative.

The portfolio at risk remains below 5%.

The cooperative achieves operational self-sufficiency after the third year.

## Client Characteristics

<b>Group Lending</b>	
1.	Female
2.	Live in rural areas
3.	High school or lower education
4.	Small market traders or kiosk owners
5.	Earn daily income less than \$2.50USD/day
6.	Cannot access bank services (no collateral).
7.	Have potential to grow.

## Past Experience

<b>Past Experience: Addressing the Key Challenges</b>	
1. Client discipline	Staff must be recruited and trained to exercise greater self-discipline and enforce member discipline. Staff must know and respect group members. At the same time they cannot become overly sympathetic or personally involved in the lives of project members. Staff must understand that the successful operation of the project is a cause greater than any one member. Everyone must follow the rules; those who cannot or will not are out of the project
2. Social monitoring	The aim of the project is to address poverty. As such, more than just financial indicators must measure project performance. YUM must be able to select the poor and poorest for their services and assess over time if there is an improvement in their livelihood. Non-financial indicators can be used to give a clear and systematic indication of client poverty and, importantly, progress out of poverty.
3. Loan Appraisal	When loan-use strategies entail risk reduction and consumption smoothing clients may still benefit from increased economic security, however their repayment capacity will be lower. Ideally loans are used to expand existing activities and reduce the cost of inputs. As such, the field officer must conduct a thorough and informed business appraisal. Rural members usually have a larger number of income sources than urban members. MFIs must be able to assess demand and repayment capability based on multiple income streams.
4. Solidarity groups	When group based lending is combined with frequent group meetings clients are likely to report that they are unable to make such a time commitment. Group based lending while convenient for the loan officer, must not be seen as an inconvenience by the client.
5. Self-sufficiency	Sparse and geographically dispersed rural populations will make it difficult for financial institutions to achieve economies of scale and therefore self-sufficiency. The microcredit project, while in its infancy, must aim to concentrate its client base into a relatively confined target area.

### c. Products and Services

<b>Loan Product Specifications</b>	
<b>Product Name</b>	Group Lending.
<b>Target Clients</b>	Market traders, kiosk owners.
<b>Duration of Loan</b>	Loan are weekly for 26 weeks up to 52 weeks.
<b>Loan Size</b>	Varied based on needs and capacities. Minimum loan size 500,000IDR. (New clients maximum loan size is 500,000IDR).
<b>Interest Rate</b>	32.76% per year.
<b>Collateral</b>	Mandatory collateral in the form of savings (held in the cooperative) amounting to 20% of loan size applied for the second and further loans.
<b>Group Members</b>	Minimum 2 up to maximum 4.
<b>Repayment</b>	Collected weekly in the field by the field officer. Clients are encouraged to save daily using a savings box provided by the cooperative. Clients will have the option of faster repayment, at no penalty, if desired.
<b>Application</b>	At YUM office and/or posyandu meetings.
<b>Savings</b>	'Simpanan pokok' is minimum 10,000IDR at time of loan disbursement. 'Simpanan wajib' is minimum 5,000IDR weekly. 'Simpanan sukarela' is voluntary.

<b>Group Lending Procedure</b>	
1.	Potential clients meet with field officer at YUM office and discuss their project.
2.	Potential clients are screened by the field officer against client eligibility criteria.
3.	Eligible clients are assisted by the field officer to complete an application form.
4.	Field officer begins a file for each new applicant by group.
5.	Field officer conducts on-site loan appraisal for all new applicants.
6.	Field officer submits completed loan appraisal and recommendations to project manager.
7.	Project manager approves loan disbursement.
8.	Loan disbursement and signing of credit contract by clients.
9.	Field officer visits group members weekly in order to collect loan repayment.
10.	Field officer visits group members for monitoring and evaluation. (Delinquent borrowers will be closely monitored by the field officer).

#### Process of Group Formation

The function and benefits of the group is explained to applicants during the application process.

Group members will be expected to help each other in the running of their business and to provide each other moral support.

A group leader will be elected during the loan disbursement. The group leader will be the responsible person in any necessary communication between members and the cooperative in loan monitoring or delinquency handling.

#### Savings

There are three components to savings, 'simpanan pokok', 'simpanan wajib' and 'simpanan sukarela'.

'Simpanan pokok' is compulsory and will be collected from clients as a one-off payment at the time of loan disbursement.

'Simpanan wajib' is compulsory and will be collected from clients on a weekly basis at the same time loan repayment is made.

<b>Area Survey: by Village in Bukit Batu Sub-district.</b>	
1.	<p><b>Marang Village</b> Local understanding of financial development is low. Marang village still depends on the income from natural resources. People work as fisherman, traders, motorcycle transportation service (ojek), sand mining, civil servants and BOS officer.</p>
2.	<p><b>Tumbang Tahai</b> South area (Sidomolio) is low plain; the land condition has fertile soil for farming and plantation. Most farmland is not owned by farmers but is owned by people outside Palangkaraya. Center area (main street area) is a residential area and the land condition is not suitable for farming and plantation. There is sand mining in this area. East area (Nyaru Menteng) there is a watershed and lake for fisherman. Tahai water tourism location and reintroduction location of orangutan (BOS) offer alternative employment. The North area (main street border on Banturung village) is largely occupied by fishermen. South area (Tjilik Riwt km 26 Street), the land and soil are marshy and not fertile. The area is flood prone. Employment includes sand mining, livestock and small stallholders (warung).</p>
3.	<p><b>Habaring Hurung</b> Habaring Hurung village consists of seven RT and two RW, which consist of many tribes (Javanese, Dayak, Bugis, Batak and Balinese). Habaring Hurung is an ex-transmigration area. People are employed as farmers, traders, laborers and civil servants. Habaring Hurung has a high amount of social activities and monthly and weekly Arisan.</p>
4.	<p><b>Banturung</b> Banturung has a large residential area and consists of many tribes. There are a large variety of occupations in this area. In the high-level land residential area people are farmers and stone miners. In the main street residential area there are small stallholders (warung), petrol shops and a daily market. In the river area employment is mainly as brick makers and fishermen.</p>
5.	<p><b>Tangkiling</b> Tangkiling is the capital of Bukit Batu sub district. Most of the tribe is Dayak. People who live near the main streets choose are employed as small stallholders (warung). People living in the hill area are stone miner; people in the river region are fisherman, port laborers, fish and vegetables traders and employed in the transportation service.</p>
6.	<p><b>Sei Gohong</b> Sei Gohong is located in the north of capital of Bukit Batu sub district, and consists of two areas: People in Sei Gohong are mainly Dayak. The main occupations are farmers, fisherman, laborers, gold miners, forest gatherers and market traders. The Transmigration area consists of many tribes: Javanese, Dayak, Sundanese and Banjar. People work as farmers, raising livestock and laborers. There is an established snacks home industry employing local women.</p>

'Simpanan pokok' and 'simpanan wajib' will be held by the cooperative until such time as a member withdraws from the project and they will be eligible to have their savings returned to them.

'Simpanan Sukarela' will be decided individually at the member's request and will be held by the cooperative until any time that the member asks.

Savings will not be mobilized by the cooperatives and will only be available for use by the cooperative to cover loan losses by an individual member.

#### Competitive Advantage

The group-lending product is unique in that clients are offered the chance to repay loans at their place of work. Clients will appreciate the convenience of this loan product and have previously expressed reluctance to attend lengthy meetings or travel any great distance in order to make loan repayments.

Clients do not require any collateral in order to be eligible for a loan and are not obliged to repay loans for other delinquent group members. Clients will appreciate the ease with which they are able to obtain a loan.

The field officer will attempt to work with clients in order to assess their business potential and decide on appropriate loan terms suitable to each client's needs.

### III. MARKET RESEARCH AND ANALYSIS

#### a. Area Survey

Population Bukit Batu Sub-District 2009								
No.	Parameter	Marang	T.Tahai	H.Hurung	Banturung	Tangkiling	S.Gohong	Kanarakan
1.	Adult Female Population	416	919	448	1158	1340	661	229
2.	Total	5171						

#### b. Competition

##### P2KP/PNPM

Poverty Reduction Project in the Cities (P2KP), now People's Empowerment Project (PNPM), is a government development project operating since 1999. P2KP offers micro scale loans to poor people in village areas.

First time borrowers may borrow up to Rp.500, 000 over a 3-12 month period.

Interest is charged at 1.5% - 3% per month.

##### *Member Requirements:*

Must possess identity card

Must come from poor family

Of good character and can cooperate with other members

Must have minimum savings of 5% of loan amount and be able to add 5% further savings during loan period.

Must have motivation to work and/or possess a micro business.

The approximate number of members in the Bukit Batu sub-district is 30.

##### Sejahtera Cooperative

Sejahtera cooperation is a savings and loan cooperative located in Palangkaraya.

Loan officers target clients with micro businesses. Membership is straightforward as requires little more than a copy of the client's identity card.

Sejahtera Cooperative offers two types of loan products:

##### *Daily Loan Product:*

Clients may borrow up to Rp.500, 000. Repayment is daily over a 30-day period and interest is charged at 4% per day.

##### *Monthly Loan Product:*

Clients may borrow up to Rp.500, 000. Repayment is monthly over a 12-month period and interest is charged at 6% per month.

## PKBI

The Indonesian Family Planning Project (PKBI) offers a savings and loan service to women. Members are required to form a group, of minimum 5 members, where all members are engaged in micro business activity. Each member is liable for the loans of all other members.

Interest is charged at 1.5% per month, payable to PKBI, and 1.5% per month held by the group. Minimum loan size is Rp.5, 000,000 with monthly repayments over a 10-month period.

## Eka Karya Cooperative

Eka Karya Cooperative offers a savings and loan service exclusively to civil servants. The total number of active members to date is 314 members.

### *Savings Requirements:*

One-off saving contribution (simpanan pokok) - Rp.10, 000/month

Compulsory saving (simpanan wajib) - Rp.5, 000/month

Special saving (simpanan khusus) – Rp.5, 000/month

### *Loan Conditions:*

Interest is charged at 1.5% per month with monthly loan repayments.

## Credit Union

Credit Union Betang Asi is a financial agency established by the Dayak Panarung Syarat Foundation.

### *Membership Requirements:*

Must attend one-week training session

Must have collateral

Must have made savings contribution for 4 months before being eligible to borrow

Interest is charged at 25% per year. Clients receive 14% interest per year on their savings.

Summary of Competition: Bukit Batu Sub District			
No.	Institute	Loan Terms	Conditions
1.	P2KP/PNPM	Interest 18% pa. – 36% pa. Monthly repayments over 3-12 months. Max loan size Rp.500, 000 Compulsory saving	Must have minimum savings at 5% of loan amount.
2.	Sejahtera Cooperative	Interest 72% pa. – 146% pa. Daily repayment (30-day period) or monthly (12-month period). Max loan size Rp.500, 000.	Must have ID card.
3.	PKBI	Interest 36% pa. Monthly repayment over 10-months. Min loan size Rp.5, 000, 000 (per group)	Must form group of min 5 members with mutual guarantee system.
4.	Koperasi Eka Karya	Interest 18% pa. Monthly repayment Compulsory saving	Only civil servants are eligible
5.	Credit Union	Interest 25% pa. Compulsory saving	Must attend one-week training session Must have collateral

#### IV. MARKETING PLAN

##### a. Area Assessment

Area Assessment by Village in Bukit Batu Sub-District		
No.	Village	Assessment
1.	Marang	<b>Not suitable for pilot project.</b> Micro activities are still few. The area is sparsely populated. The distance between YUM office and village is far.
2.	Habaring Hurung	<b>Not suitable for pilot project.</b> People's credit activities are many, such as: Arisan, P2KP and daily cooperative. The potential for over-indebtedness is high; the potential for delinquency is high.
3.	Tumbang Tahai	<b>Suitable area is Nyaru Menteng.</b> Trading and small kiosk activity is high. Existing credit activity is low.
4.	Banturung	<b>Suitable for pilot project.</b> There are many micro activities. There is an established market area.
5.	Tangkiling	<b>Suitable for pilot project.</b> There are many micro activities. There is an established market area.
6.	Sei Gohong	<b>Suitable area is Trans km.38.</b> There are many micro activities such as: snack maker, trader and vegetables farmer who sell vegetables in Sunday market, Micro activities largely performed by women. The distance from YUM office is not far.

##### b. Pricing

The cooperative requires income to cover operation costs and this income is generated from the interest on loans.

Determining the income generated from the loan product (product price) is directly related to the interest charged and the level of risk involved.

In pricing the product, market conditions and competitors must be taken into account.

The following target per field officer can cover YUM's operation costs:

1. Portfolio: Rp.95, 000, 000
2. Interest Income: Rp.15, 000, 000
3. Clients: 120
4. PAR: Max 5%

### **c. Socialization**

#### Pre-cooperative formation: Socialization Procedure

- Step 1. Field Officer meets with one local community representative.  
Field Officer presents information about the project (project brochure) and clearly explains the selection process, loan product and lending procedure.
- Step 2. Community representative is asked to pass-on information amongst her peers and recommend suitable applicants to the Field Officer.  
Community representative is asked to use the Client Screening form when selecting potential members.
- Step 3. Field Officer collects Client Screening forms and meets with all recommended clients.  
Field Officer presents information about the project to recommended clients.  
Those clients that wish to proceed are asked to complete an application form.
- Step 4. Field Officer conducts a credit analysis for all recommended clients.  
Field Officer presents list of eligible clients to the Project Manager (maximum 40 clients).
- Step 5. The Project Manager approves list of applicants.
- Step 6. All approved applicants are invited to attend the meeting of cooperative formation at the YUM branch-office.
- Step 7. Meeting of cooperative formation is held at the YUM branch-office.

#### Post Cooperative Formation: Socialization Procedure

Having formed the cooperative with the required (minimum 20) members, socialization will continue to take place at the YUM office and posyandu meetings.

The field officer will meet with clients to discuss the YUM microcredit project, loan product and conditions. The field officer will use the project brochure to assist this process.

## **V. REGULATORY ENVIRONMENT**

### **a. Legal Structure**

In 2001 the first ever law on foundations was passed. According to the law, foundations may provide social, humanitarian and religious services only and are forbidden from engaging in income-generating or economic activities, such as microfinance. As such all foundations wishing to engage in microfinance must form a BPR or cooperative.

The YUM microcredit project will be realized through the establishment of a cooperative whereby YUM employees are installed on the cooperatives board of directors. In this way control of the cooperative will be maintained by YUM.

### **b. Regulation**

The cooperative sector is regulated by a government regulation of 1995 and a ministerial decree of 1998, which restricts credit and savings activities to financial cooperatives (KSP) or specialized units of multipurpose cooperatives (USP).

Cooperative regulation dictates saving requirements and maximum interest rates.

#### Forming a Cooperative

The establishment of a cooperative requires that a meeting be held with all potential members. The minimum number of members to begin a cooperative is 20. The board of directors, minimum 3 members, is elected at this meeting. Minimum capital requirements are also imposed.

The Mayor and Department of Cooperatives receives application for the establishment and endorsement of a Cooperative, including minutes from the 'Meeting to Establish a Cooperative', statement of capital and work plan of the Cooperative.

## **VI. OPERATIONS PLAN**

### **a. Geographic Location**

The microcredit project will begin operation and selection of clients in the village of Tangkiling and village of Banturung, Bukit Batu sub-district, Palangkaraya, Central Kalimantan.

The microcredit project will eventually expand to include all villages in the Bukit Batu sub-district.

### **b. Facilities, equipment and technology**

The microcredit project is run out of the YUM branch-office in Central Kalimantan. The YUM office is located 36km from the city of Palangkaraya in the Bukit Batu sub-district.

Microcredit staffs have access to a desktop computer, printer and (limited) Internet access.

Transport is available in the form of motorbikes and a car belonging to the office.

The nearest bank is located in Palangkaraya.

### c. Labor force

One full-time staff member, filling the role of field officer, will work on the micro-credit project.

Both the project manager and accountant will split their workload between the micro-credit and existing health project.

A volunteer will provide technical assistance and support to the project.

The field officer will be expected to support up to 200 clients. As the number of clients grows to exceed 200 additional field officers will be employed.

As the micro-credit project expands both the project manager and accountant will work full-time on the micro-credit project.

### d. Control of PAR

#### Credit Analysis

A thorough client selection process will maintain the quality of the portfolio.

The field officer will conduct the credit analysis process and the project manager will make a final recommendation based on the information submitted by the field officer.

<b>Group Lending - Credit Analysis Process</b>	
1. Initial Screening	The field officer will conduct an initial screening with the client, checking that the client matches the cooperative's eligibility criteria
2. Pre-Loan Investigation	The field officer will review the application and determines whether or not the screening form and application form are consistent and realistic. The field officer will confirm all personal data, business and household details. The field officer will review any existing data on the applicant checking for any bad record.
3. Loan Appraisal	The field officer will visit the applicant in their place of work in order to collect some basic information about the applicant's business. The field officer completes the loan appraisal form and provides their final recommendation to the project manager.
4. Final Assessment by Project Manager	For each new client application the project manager will consider the strengths and weaknesses of the information collected while testing the assessment of the ability of the applicant to repay. The project manager will make the final decision as to whether the loan applicant is eligible or not.

#### Ensuring Client Ability to Repay

The cooperative has a moral responsibility to ensure that the client is able to repay. Each loan approved must be in accordance with the client's repayment capacity.

<b>Loan Feasibility Criteria</b>	
1.	Maximum loan size is 150% of capital.
2.	Total client's liability (including loan repayment and household expenses) is no more than 80% of client's income.
3.	Maximum debt expense is 70% of household expenses.
4.	Frequency of client income is daily or weekly.

### Loan Monitoring

After the loan has been disbursed the field officer is obliged to conduct monitoring of the client loan and business every 3 months. Monitoring will involve visiting the client at their place of business and completing the 'Client Monitoring Form'.

All clients considered at risk will be referred to the Project Manager for follow up and if necessary the process for delinquency management will commence.

### Delinquency Management

The field officer will follow up all cases of delinquency promptly and if necessary refer the case to the project manager.

<b>Delinquency Management Process</b>	
1.	If the client's money in the box is less than repayment target determined and the client is unable to repay at the time of visit, the field officer must visit the client on the next day to collect the repayment or to set the date to repay within 3 days.
2.	If the client still fails to repay the project manager will visit the client on the next day to assess whether the client can pay or don't want to pay.
3.	If the client persists with non-repayment the field officer and project manager will agree on the plan to follow up the client.

### Subsequent Loans

All clients of good character and having completed repayment of their first loan will be eligible for subsequent loans.

Penalties will apply for clients who have finalized their loan after the due date.

<b>Client Penalties</b>	
Days after loan term expired	Penalty
< 3 days	No penalty
3 - 7 days	Maximum loan size is 75% of previous loan
8 - 21 days	Maximum loan size is 50% of previous loan
>21 days	No further loan

In order for the loan size to be increased the client must display business progress. Additionally the client must have fully repaid the previous loan without any delinquency.

### **e. Control of operating expenses**

Each loan officer will be expected to maintain a portfolio of at least 200 clients, minimizing the cost per client.

The loan officer will attempt to coordinate field visits among nearby clients and will endeavor to conduct loan monitoring in conjunction with loan collection in order to reduce the cost of transport.

The treasurer will work to confirm and record all expenses claimed by the loan officer, project manager and/or other staff.

## f. Critical Assumptions and Risks

<b>Critical Assumptions and Risks Microcredit Project</b>		
Factor	Risk	Addressing the Risks
1. Labor Force	The level of education in the region is relatively low and skilled labor can be difficult to find.	There must be a provision for training new staff.
	Local people prefer to work in the city of Palangkaraya and are reluctant to commute to the branch-office.	Staff salaries must reflect this.
	Local people place a high value on job security preferring to work for the government where a pension is secure and are less inclined towards contract work.	Staff salaries must reflect this.
	Microcredit project staff are required to assist on multiple other YUM projects.	Microcredit project staff must be committed to the microcredit project and must not be required to work on multiple other projects.
2. Facilities	The electricity supply in the branch office is unpredictable and often unavailable.	YUM must consider installing/upgrading the generator. Documents must be backed up in hard copy. The MIS system must not be overly complicated or computer reliant.
3. Funding	The microcredit project will need to compete with other YUM projects for funding and the time and efforts of the fundraising staff.	There must be a commitment to source funding for the microcredit project.
	The project will require outside funding for at least the first three years and until it has reached sustainability. Without continual funding the project will be unable to meet its operating expenses.	Fundraising must begin early on in order to meet future funding requirements.
4. Credit Risk	The growth and sustainability of the project relies on maintaining a 5% PAR.	A strict client discipline must be maintained. The procedure for loan analysis must be adhered to.
5. Regulation	The cooperative structure and operating system must abide by the law of cooperatives. Failure to do so may force the cooperative to be shutdown.	The department of cooperatives must be consulted. YUM must stay informed of any change in regulation.
6. Management	The microcredit project will rely on clear and timely communication among all staff and management, including the YUM head office in Jakarta.	Project staff in Kalimantan must keep management in Jakarta informed about the microcredit project. Head office in Jakarta must provide timely feedback and clear instruction to staff in Kalimantan.
7. Capacity Building	Technical knowledge and expertise in microfinance is shared with a limited number of staff. This knowledge will leave YUM with those staff.	Capacity building must focus on systems development and must be well documented. Capacity building should not be overly focused on any one staff.

### g. Reporting

The field officer will prepare a monthly progress and evaluation report, with the assistance of the project manager.

<b>Progress and Evaluation Report</b>			
No	Parameter	Target / Achieved	Remark
1.	<b>CLIENT DATA</b> Number of active clients. Number of non-active cooperative members. Client numbers by location. Client numbers by employment.		
2.	<b>LOAN PROCESSING AND LOAN APPRAISAL PROCESS</b> Number of new loan applications. Number of new loans disbursed. Number of loan appraisals conducted. Average loan processing duration. Location of loan applications		
3.	<b>MONITORING</b> Number of monitoring visits conducted. Number of borrowers at risk. Number of borrowers in arrears.		
4.	<b>SOCIAL IMPACT DATA</b> Number of new PPI surveys submitted. Number of new female borrowers. Percent of clients below poverty line.		
5.	<b>FINANCIAL DATA</b> New loan amount disbursed in the period. Total loan amount outstanding. Average loan size for the period. Portfolio at Risk (PAR) Number of new loans to first time borrowers. Invested capital received in the period. Total invested capital received. Total invested capital remaining. Interest received in the period. Total interest received. Savings received in the period. Total savings received.		

## **VII. SOCIAL MONITORING**

### **a. The Purpose of Social Monitoring.**

The microcredit project has a social objective to empower women and improve the welfare of women and their families. In order to assess whether the microcredit project is fulfilling this objective social monitoring will be conducted for every client.

### **b. Progress out of Poverty Index (PPI).**

The Microcredit project will incorporate the Grameen Bank's Progress out of Poverty Index (PPI) for the purpose of social monitoring. The PPI is an accurate, effective and low cost social performance measurement and management tool.

The PPI is used to identify client poverty levels based on national poverty lines. The PPI tracks client progress over time and provides data that can assist YUM to improve its products and services.

The PPI consists of ten easy to collect non-financial indicators such as family size, children attending school and housing type. Based on this information the PPI is used to estimate the likelihood that a member is below the poverty line. This information then serves as a baseline from which member progress is measured.

### **c. Integration of PPI into the Lending Procedure.**

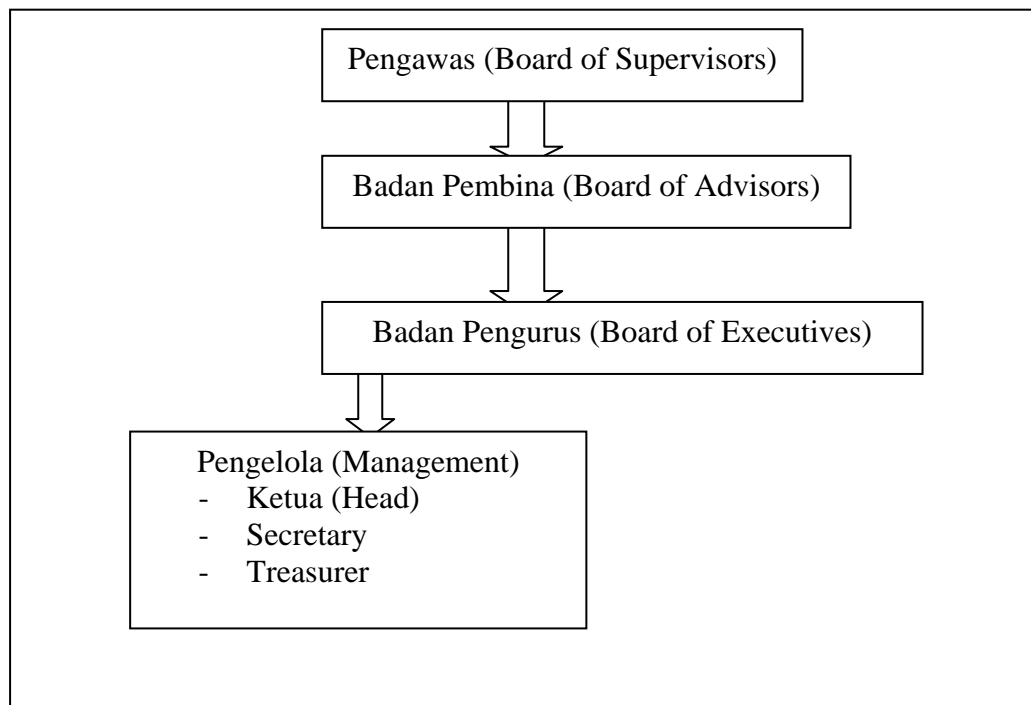
The PPI questionnaire will be incorporated into the loan application form. Upon final loan repayment or repeat loan application clients will again be asked to complete the PPI questionnaire.

Data from the PPI will be analyzed incorporated into the monthly report by the loan officer.

## VIII. MANAGEMENT TEAM

### a. Organization

The organization structure is to be designed following the legal requirements of a cooperative and will approximate the following;



### b. Key Roles and Responsibilities

Ketua / Field Officer	Presents information about the cooperative at posyandu, market place, and YUM office. (Socialization process). Conducts client screening at YUM office. Assists eligible clients to complete application form at YUM office. Creates file for each applicant Conducts credit analysis/ loan appraisal for each new applicant Loan disbursement Collects repayments, interest, savings. Records repayments, interest, savings collected. Gives money to Treasurer for banking. Monitors existing clients (loan monitoring and welfare monitoring). Prepares monthly report (welfare monitoring, portfolio)
Accountant / Treasurer	Banking of repayments, savings, interest Assists with loan disbursement Record keeping project income and expenses. Prepares project financial statements.
Project Manager	Prepares project budget Development strategy Conducts final loan appraisal Assists with loan disbursement
Board of Directors	Approves budget and development strategy
Secretary (Voluntary)	Assists with socialization process Assists with communication between members and the field officer.
Technical Advisor (Voluntary)	Provides technical advice and assistance.

## IX. Financial Plan

### a. Funding

Implementation of the microcredit project will require a commitment to funding over the next two years.

Funding required for the provision of new loans and operating expenses.				
	Q1-2: 2010	Q3-4: 2010	Q1-2: 2011	Q3-4: 2011
<b>REQUIRED FUNDING</b>	<b>33,810,000</b>	<b>51,340,000</b>	<b>44,925,800</b>	<b>38,857,010</b>
New loan capital	20,000,000	40,000,000	40,000,000	40,000,000
Operating Expenses (less interest income)	13,810,000	11,340,000	4,925,800	(1,142,990)

Following the two-year implementation period, the project is expected to have stabilized with no new funding required (assuming the number of clients is allowed to remain unchanged).

In the future, and in order to expand the number of clients, additional funding will be required.

**b. Budget**

<b>BUDGET MICROCREDIT - THREE YEARS (2009 - 2012)</b>						
	1/12/09 - 30/5/10	1/6/10 - 30/11/10	1/12/10 - 30/5/11	1/6/11 - 30/11/11	1/12/12 - 30/5/12	1/6/12 - 30/11/12
	Loan Cycle 1	Loan Cycle 2	Loan Cycle 3	Loan Cycle 4	Loan Cycle 5	Loan Cycle 6
Loan Capital from YUM	20,000,000	40,000,000	40,000,000	40,000,000	6,908,341	6,965,010
Existing Loan Capital (95%)	0	19000000	56050000	91247500	124685125	125013792.2
<b>TOTAL</b>	<b>20,000,000</b>	<b>59,000,000</b>	<b>96,050,000</b>	<b>131,247,500</b>	<b>131,593,466</b>	<b>131,978,802</b>
Average Loan Size	500,000	500,000	750,000	750,000	750,000	750,000
Groups	40	118	128.0666667	174.9966667	175.457954	175.9717358
Loan term (weeks)	26	26	26	26	26	26
Interest/Month	0.63%	0.63%	0.63%	0.63%	0.63%	0.63%
<b>TOTAL INCOME</b>	<b>3250000</b>	<b>9664200</b>	<b>15732990</b>	<b>21498340.5</b>	<b>21555009.65</b>	<b>21618127.75</b>
<i>Operating Expense</i>						
Staff (Field Staff) 1	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000
Staff (Field Staff) 2	0	0	0	0	0	0
Transport	1,560,000	2,340,000	2,340,000	2,340,000	2,340,000	2,340,000
Stationary	100,000	100,000	100,000	100,000	100,000	100,000
Photo Copying	100,000	150,000	150,000	150,000	150,000	150,000
<i>Legal Expense</i>						
Notary	2,500,000	0	0	0	0	0
Administration	500,000	0	0	0	0	0
<b>TOTAL EXPENSE</b>	<b>16,760,000</b>	<b>14,590,000</b>	<b>14,590,000</b>	<b>14,590,000</b>	<b>14,590,000</b>	<b>14,590,000</b>
<b>PROFIT</b>	<b>-13,510,000</b>	<b>-4,925,800</b>	<b>1,142,990</b>	<b>6,908,341</b>	<b>6,965,010</b>	<b>7,028,128</b>
<b>TOTAL INVESTMENT*</b>	<b>36,760,000</b>	<b>51,340,000</b>	<b>44,925,800</b>	<b>38,857,010</b>	<b>0</b>	<b>0</b>